



MARION GENERAL HOSPITAL, INC.

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

MARION GENERAL HOSPITAL, INC.

Table of Contents

	Page
Independent Auditors' Report	1
Balance Sheets	2
Statements of Operations	4
Statements of Changes in Net Assets	5
Statements of Cash Flows	6
Notes to Financial Statements	7



KPMG LLP
Suite 1500
111 Monument Circle
Indianapolis, IN 46204

Independent Auditors' Report

The Board of Directors
Marion General Hospital, Inc.:

We have audited the accompanying balance sheets of Marion General Hospital, Inc. (Hospital) as of June 30, 2011 and 2010, and the related statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marion General Hospital, Inc. as of June 30, 2011 and 2010, and the results of its operations, changes in net assets, and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 14, 2011

MARION GENERAL HOSPITAL, INC.

Balance Sheets

June 30, 2011 and 2010

Assets	2011	2010
Current assets:		
Cash and cash equivalents	\$ 28,521,780	16,146,917
Assets limited as to use – required for current liabilities	1,372,521	1,153,891
Accounts receivable:		
Patient services, net	20,854,210	18,805,393
Physician practices, net	921,824	540,005
Other	302,222	1,175,089
Estimated third-party settlements	—	562,747
Accrued interest	84	135
Inventories	1,498,426	154,502
Current portion of notes receivable	1,027,112	683,757
Prepaid expenses	1,383,359	1,058,429
Other current assets	—	555,786
Total current assets	<u>55,881,538</u>	<u>40,836,651</u>
Assets limited as to use or restricted:		
Funds held by trustee, less current portion	4,892,421	6,624,549
By board of directors	127,258,133	106,967,010
Other restricted assets	10,155	10,155
Total assets limited as to use or restricted	<u>132,160,709</u>	<u>113,601,714</u>
Property and equipment, net	<u>64,782,344</u>	<u>66,824,055</u>
Other assets:		
Investment in joint ventures	3,084,243	3,068,385
Unamortized bond issuance costs	1,350,539	1,448,089
Notes receivable, net	2,229,473	2,716,756
Goodwill and intangible assets	1,474,291	1,589,750
Other assets	866,772	596,077
Total other assets	<u>9,005,318</u>	<u>9,419,057</u>
Total assets	<u>\$ 261,829,909</u>	<u>230,681,477</u>

See accompanying notes to financial statements.

Liabilities and Net Assets	2011	2010
Current liabilities:		
Current portion of long-term debt	\$ 1,305,000	1,260,000
Accounts payable	3,500,984	3,082,941
Accrued liabilities:		
Salaries and related liabilities	8,923,850	7,275,147
Interest	774,883	796,307
Other	247,596	200,745
Estimated third-party settlements	1,765,708	—
Total current liabilities	16,518,021	12,615,140
Long-term debt	48,919,226	50,196,146
Accrued pension liability	6,070,881	17,281,440
Other	488,956	457,816
Total liabilities	71,997,084	80,550,542
Net assets:		
Unrestricted	189,822,670	150,120,780
Permanently restricted	10,155	10,155
Total net assets	189,832,825	150,130,935
Total liabilities and net assets	\$ 261,829,909	230,681,477

MARION GENERAL HOSPITAL, INC.

Statements of Operations

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Unrestricted revenue and support:		
Net patient service revenue	\$ 142,332,254	130,827,532
Other revenue, net	2,101,379	2,275,053
Net assets released from restrictions used for operations	—	959
Total revenue and support	<u>144,433,633</u>	<u>133,103,544</u>
Expenses:		
Salaries and wages	42,806,526	40,040,829
Employee benefits	10,787,526	11,089,144
Physician services	11,065,989	8,243,546
Professional services	6,831,605	5,954,580
Medical supplies	7,998,819	10,828,082
Drugs and IV solutions	8,787,781	9,455,803
Food	24,568	23,433
Purchased services	7,935,875	7,664,771
Rent	1,531,787	1,255,875
Plant and equipment maintenance	3,721,030	3,648,377
Utilities	1,946,403	1,801,143
Nonmedical supplies	1,754,745	1,815,692
Leased property expenses	1,001,532	1,006,428
Other expenses	1,878,381	1,073,674
Insurance	754,033	749,658
Interest	1,987,880	2,142,663
Depreciation and amortization	8,799,118	10,408,019
Provision for bad debts	12,372,378	13,360,256
Total expenses	<u>131,985,976</u>	<u>130,561,973</u>
Operating income	12,447,657	2,541,571
Other nonoperating gains:		
Investment income and other, net	<u>7,445,730</u>	<u>6,216,652</u>
Excess of revenue, support, and gains over expenses	19,893,387	8,758,223
Change in net unrealized losses on investments	11,371,130	7,982,216
Change in periodic pension and postretirement costs not yet recognized in expense	<u>8,437,373</u>	<u>(241,123)</u>
Increase in unrestricted net assets	<u>\$ 39,701,890</u>	<u>16,499,316</u>

See accompanying notes to financial statements.

MARION GENERAL HOSPITAL, INC.

Statements of Changes in Net Assets

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Unrestricted net assets:		
Excess of revenue, support, and gains over expenses	\$ 19,893,387	8,758,223
Change in net unrealized losses on investments	11,371,130	7,982,216
Change in periodic pension and postretirement costs not yet recognized in expense	8,437,373	(241,123)
Increase in unrestricted net assets	<u>39,701,890</u>	<u>16,499,316</u>
Temporarily restricted net assets:		
Net assets released from restrictions	<u>—</u>	<u>(959)</u>
Decrease in temporarily restricted net assets	<u>—</u>	<u>(959)</u>
Increase in net assets	39,701,890	16,498,357
Net assets at beginning of year	<u>150,130,935</u>	<u>133,632,578</u>
Net assets at end of year	<u>\$ 189,832,825</u>	<u>150,130,935</u>

See accompanying notes to financial statements.

MARION GENERAL HOSPITAL, INC.

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Increase in net assets	\$ 39,701,890	16,498,357
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,799,118	10,408,019
Amortization of bond issuance costs and bond discount	125,630	128,106
Provision for bad debts	12,372,378	13,360,256
Loss on disposal of property and equipment	828,174	185,633
Change in unrealized gains on investments	(11,371,130)	(7,982,216)
Dividends received from joint ventures	712,669	853,286
Investment return, net	(7,445,730)	(6,216,652)
Change in periodic pension and postretirement costs not yet recognized in expense	(8,437,373)	241,123
Changes in assets and liabilities:		
Accounts receivable	(13,930,146)	(13,926,108)
Accrued interest, inventories, prepaid expenses, and other current assets	(1,668,803)	209,659
Other current assets	179,880	(179,880)
Other long-term assets	(220,668)	72,596
Pension liability	(2,773,186)	5,276,622
Accounts payable and accrued liabilities	1,603,667	(6,742,379)
Estimated third-party settlements	2,328,455	4,052,880
Net cash provided by operating activities	<u>20,804,825</u>	<u>16,239,302</u>
Cash flows from investing activities:		
Additions to property and equipment	(6,649,774)	(5,278,430)
Proceeds from sale of property and equipment	75,203	150,970
Proceeds from the sale or maturity of investments	61,804,167	43,852,130
Purchases of investments	(62,543,486)	(35,078,975)
Change in notes receivable, net	143,928	(507,623)
Net cash (used in) provided by investing activities	<u>(7,169,962)</u>	<u>3,138,072</u>
Cash flows from financing activities:		
Repayment of long-term debt	(1,260,000)	(1,220,000)
Repayment on letter of credit	—	(5,755,000)
Net cash used in financing activities	<u>(1,260,000)</u>	<u>(6,975,000)</u>
Net increase in cash and cash equivalents	12,374,863	12,402,374
Cash and cash equivalents at beginning of year	<u>16,146,917</u>	<u>3,744,543</u>
Cash and cash equivalents at end of year	<u>\$ 28,521,780</u>	<u>16,146,917</u>
Supplemental disclosure of cash flow information:		
Interest paid, net of amounts capitalized of \$195,353 and \$349,944 in 2011 and 2010, respectively	\$ 2,094,569	2,395,012
Purchase of property and equipment payable at end of year	830,337	310,692

See accompanying notes to financial statements.

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

(1) Organization and Summary of Significant Accounting Policies

(a) *Organization*

Marion General Hospital, Inc. (Hospital), a not-for-profit corporation, provides inpatient and outpatient services primarily to residents from the Grant County area. Expenses related to directly providing these services were approximately 92% of total expenses for the years ended June 30, 2011 and 2010.

(b) *Estimates and Uncertainties*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(c) *Cash and Cash Equivalents*

Cash and cash equivalents consist of a cash management fund and demand deposit accounts, all with an original maturity of three months or less.

(d) *Investments*

Investments are recorded at fair value in the balance sheets. Investment income and other, net (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenue, support, and gains over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on other-than-trading investments are excluded from the excess of revenue, support, and gains over expenses unless the unrealized loss on investment security is considered other-than-temporary. Generally, the fair value of the alternative investments – fund of funds are based on the fair value of the underlying marketable securities as of June 30, 2011 and 2010. There are, however, some securities for which prices are not readily available. In this instance, the fair value is based on the fair value of similar securities. Accordingly, the fair values of these securities may differ significantly from the values that would have been used had a ready market existed for these investments.

A decline in the market value of any other-than-trading security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to excess of revenue, support, and gains over expenses and a new cost basis for the security is established. Management continually reviews the investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. A critical factor in this evaluation is the length of time and extent to which the market value of the individual security has been less than cost. Other factors considered include recommendations of investment advisors and conditions specific to the issuer or industry in which the issuer operates. For the years ended June 30, 2011 and 2010, the Hospital has not recorded other-than-temporary declines in the fair value of its investments. While management uses available information to measure other-than-temporary impairment at the balance sheet date, future write downs may be necessary based on extended duration of current unrealized losses and changing market conditions.

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of the Hospital's investments could occur in the near term and that such changes could materially affect the amounts reflected in the financial statements.

(e) Inventories

Inventories are stated on the weighted average cost method, which approximates market value. The Hospital recorded operating room supplies in inventory for the year ended June 30, 2011 in the amount of \$1,361,832.

(f) Assets Limited as to Use or Restricted

Assets limited as to use include assets set aside by the board of directors for future capital improvements and other purposes, over which the board of directors retains control and may, at its discretion, subsequently use for other purposes. Assets held by trustees under indenture agreements are also included within this caption and are classified as current assets to the extent they are to be used to pay for current liabilities.

Restricted assets include assets whose use by the Hospital has been limited by donors to a specific purpose.

(g) Property and Equipment

Property and equipment acquisitions are recorded at cost. Property and equipment donated to the Hospital are recorded as additions to temporarily restricted net assets at their fair value at the date of receipt and as a transfer to unrestricted net assets when the assets are placed in service.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method using a half-year convention in the year of acquisition and disposal.

In accordance with Impairment or Disposal of Long-Lived Assets Subsections of FASB ASC Subtopic 360-10, *Property, Plant, and Equipment – Overall*, (FASB Statement No. 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as property, plant, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Hospital first compares undiscounted cash flows expected to be generated by that asset or group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

(h) *Unamortized Bond Issuance Costs and Original Issue Discounts*

The costs incurred and capitalized in issuing the Series 2008 and Series 2002 Hospital Revenue Bonds are amortized into interest expense by the bonds outstanding method over the respective term of each bond series.

The discount incurred in issuing the Series 2002 Hospital Revenue Bonds is classified as a reduction to long-term debt and is amortized into interest expense using the effective-interest method over the respective term of the bond issue.

(i) *Notes Receivable*

Notes receivable are comprised of loans and advances to certain physicians, tuition advances to various employees and prospective employees, and recruitment loan advances to various employees. The allowance for uncollectible notes receivable is \$148,539 and \$167,400 at June 30, 2011 and 2010, respectively.

(j) *Business Combinations and Goodwill and Other Intangible Assets*

The Hospital accounts for a business combination using the purchase method of accounting, and accordingly, the net assets of the acquired entity are recorded at their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. Other intangible assets are amortized on a straight-line basis over a period of five years. Goodwill was amortized over a period of five years until ASU 2010-07 was adopted effective July 1, 2010, requiring goodwill to be tested annually for impairment. Goodwill and other intangible assets related to the acquisition of certain assets of Progressive Medical Imaging (PMI) at cost are \$8,374,481 and \$659,757, respectively. Accumulated amortization of goodwill and intangibles is \$7,559,947 and \$7,444,488 as of June 30, 2011 and 2010, respectively.

The Hospital's policy is to evaluate goodwill and intangible assets based on consideration of such factors as the occurrence of a significant adverse event or change in the environment in which the business operates or if the expected future cash flows (undiscounted and without interest) are less than the carrying amount of the asset.

The Hospital early adopted the provisions of Accounting Standards Update (ASU) No 2011-08, *Testing Goodwill for Impairment*. No impairment has been recognized in 2011 or 2010, as the Hospital does not believe that there are any factors or circumstances indicating impairment as of June 30, 2011 and 2010.

(k) *Temporarily Restricted and Permanently Restricted Net Assets*

Restricted net assets, the use of which is restricted by donors or grantors, are used to differentiate from unrestricted net assets on which donors or grantors place no restrictions or that arise as a result of the operations of the Hospital for its stated purposes. Restricted gifts and other restricted resources are recorded as additions to the appropriate restricted net assets at fair market value at the date of donation.

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

Resources restricted by donors for property and equipment replacement or expansion are added to unrestricted net assets to the extent expended within the period.

Unrestricted donations totaled \$25,215 and \$23,067 for the years ended June 30, 2011 and 2010, respectively, and are included in other revenue.

(l) *Excess of Revenue, Support, and Gains over Expenses*

The statements of operations include excess of revenue, support, and gains over expenses. Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenue, support, and expenses. Transactions incidental to the provision of patient care services are reported as gains and losses. Changes in unrestricted net assets which are excluded from the excess of revenue, support, and gains over expenses, consistent with industry practice, include unrealized gains and losses on investments in other-than-trading securities, changes in the accrued pension liability, change in periodic pension and postretirement cost not yet recognized in expense, and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets).

(m) *Net Patient Service Revenue*

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(n) *Patient Assistance*

The Hospital provides care to patients who meet certain criteria under its patient assistance policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as patient assistance, they are not reported as revenue.

(o) *Donor-Restricted Gifts*

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are included in other revenue in the accompanying financial statements.

(p) *Estimated Malpractice Costs*

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for the self-insured portion of both reported claims and claims incurred but not reported and is recorded in other noncurrent liabilities.

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

(q) *Income Taxes*

The Hospital is a not-for-profit corporation as described in Section 501(c) (3) of the Internal Revenue Code (Code) and is exempt from federal taxes on related business income pursuant to Section 501(a) of the Code. The Hospital does not have a reserve for any uncertain tax positions.

(2) **Net Patient Services Accounts Receivable**

Net patient services accounts receivable consists of the following as of June 30, 2011 and 2010:

		2011	2010
Gross patient services accounts receivable	\$	42,231,210	38,055,393
Allowance for estimated contractual adjustments		(16,059,000)	(14,045,000)
Allowance for uncollectible accounts		(5,318,000)	(5,205,000)
Net patient services accounts receivable	\$	<u>20,854,210</u>	<u>18,805,393</u>

(3) **Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payment to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party payment programs represent the differences between the Hospital's billings at standard rates and amounts paid by third-party payors. They also include any differences between estimated third-party settlements for prior years and subsequent final settlements. A summary of the payment arrangements with major third-party payors follows:

(a) *Medicare*

Under the Medicare program, the Hospital receives payment under a prospective payment system (PPS) for inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group (DRG). When the estimated cost of treatment for certain patients is higher than the average cost, providers may receive additional "outlier" payments. A prospective outpatient system provides for payment for most outpatient services based on service groups called ambulatory payment classifications. Other procedures are paid on a fee schedule. The prospectively determined rates are not subject to retroactive adjustment. The Hospital's classification of patients under the prospective payment systems and the appropriateness of the patients' admissions are subject to validation reviews.

(b) *Medicaid*

The Hospital is paid for Medicaid inpatient services under a prospectively determined rate per discharge. The differences between standard charges and payments are recorded as contractual adjustments.

Payment for Medicaid outpatient services is based on predetermined rates. Medicaid payments are not subject to retroactive cost-based settlements.

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

(c) *Other Payment Arrangements*

The Hospital also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge and discounts from established rates. Charges from the Hospital's largest commercial health insurer were approximately 17% of gross patient service revenue for both 2011 and 2010. A summary of net patient service revenue, contractual adjustments, and patient service revenue forgone for patient assistance, at standard charges, for the years ended June 30, 2011 and 2010 follows:

	<u>2011</u>	<u>2010</u>
Patient service revenue:		
Inpatient	\$ 88,831,903	87,773,037
Outpatient:		
Ancillary services	213,735,584	206,078,284
Physician practices	19,412,754	11,750,538
Patient assistance	<u>(17,719,392)</u>	<u>(15,595,845)</u>
Patient service revenue	304,260,849	290,006,014
Contractual adjustments	<u>(161,928,595)</u>	<u>(159,178,482)</u>
Net patient service revenue	<u>\$ 142,332,254</u>	<u>130,827,532</u>

(4) **Third-Party Settlements**

For the years ended June 30, 2011 and 2010, Medicare gross patient service revenue was approximately \$143,000,000 and \$139,500,000, respectively. Estimated third-party settlements for this program reflect the differences between interim reimbursement and reimbursement as determined by reports filed after the end of each year, and any differences owed to or by the Hospital after such reports have been audited. At June 30, 2011, Medicare reports have been audited and final settled with the fiscal intermediary through June 30, 2007.

In fiscal year 2011, net patient service revenue was increased by approximately \$14,500,000 due to partial Medicaid Disproportionate Share payments received related to State Fiscal Years 2010 and 2011. Additionally in fiscal years 2011 and 2010, net patient service revenue was increased by \$1,143,000 and \$2,578,000, respectively, for Medicare transitional outpatient payments.

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

(5) Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are generally insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2011 and 2010 follows:

	2011	2010
Medicare	33%	33%
Medicaid	12	12
Blue Cross	12	10
Commercial insurance	16	15
Self-pay, welfare, and contract	27	30
	100%	100%

(6) Assets Limited as to Use or Restricted

Assets limited as to use include funds held by trustee subject to indenture agreements and assets set aside by the board of directors for future capital improvements and other purposes. All investments are considered other-than-trading securities by management.

Assets limited as to use that are required for certain obligations classified as current liabilities are reported in current assets.

The funds held by trustee subject to indentures (investments are comprised of cash and cash equivalents) consist of the following at June 30, 2011 and 2010:

	2011	2010
Indiana financing authority:		
Variable rate demand revenue bonds, Series 2008A:		
Project fund	\$ 5,099,761	6,624,666
Indiana health facility financing authority hospital revenue bonds, Series 2002:		
Interest fund	750,181	758,732
Sinking fund	415,000	395,042
	1,165,181	1,153,774
Total trustee funds	6,264,942	7,778,440
Less current portion	(1,372,521)	(1,153,891)
	\$ 4,892,421	6,624,549

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

A description and the carrying value of the assets limited as to use by the board of directors is as follows at June 30, 2011 and 2010:

	2011	2010
Cash and cash equivalents	\$ 1,700,740	1,118,130
Exchange traded funds	11,338,908	16,684,600
Mutual funds	99,837,878	74,485,321
Alternative investments – fund of funds	14,380,607	14,678,959
Assets limited as to use by board of directors	<u>\$ 127,258,133</u>	<u>106,967,010</u>

At June 30, 2011 and 2010, assets limited as to use under indenture agreements and other restricted assets are invested in cash and cash equivalents. At June 30, 2011 and 2010, other assets include investments in mutual funds with a fair value of \$210,057 and \$120,847, respectively.

Investment return for cash, investments, and other investments are comprised of the following for the years ended June 30, 2011 and 2010:

	2011	2010
Other nonoperating gains:		
Investment return:		
Interest and dividends	\$ 5,370,125	3,630,510
Net realized gains on sale of investments	1,351,458	1,889,989
Other gains (losses):		
Gain on equity in joint ventures	744,526	690,123
Other	(20,379)	6,030
	<u>\$ 7,445,730</u>	<u>6,216,652</u>
Unrealized gains:		
Change in net unrealized gains on investments	\$ 11,371,130	7,982,216

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

The following is a description of the Hospital's investments for which market value is less than cost at June 30, 2011 and 2010 for which a continuous unrealized loss position has been less than 12 months:

	2011		2010	
	Unrealized loss	Aggregate fair value of investments with unrealized losses	Unrealized loss	Aggregate fair value of investments with unrealized losses
Mutual funds	\$ 147,812	7,152,521	1,238,772	12,939,144
International mutual funds	81,533	5,212,399	326,440	906,064
Total	<u>\$ 229,345</u>	<u>12,364,920</u>	<u>1,565,212</u>	<u>13,845,208</u>

The following is a description of the Hospital's investments for which market value is less than cost at June 30 for which a continuous unrealized loss position has been more than 12 months:

	2011		2010	
	Unrealized loss	Aggregate fair value of investments with unrealized losses	Unrealized loss	Aggregate fair value of investments with unrealized losses
Mutual funds	\$ —	—	2,545,996	14,369,460
Exchange traded funds	—	—	826,722	3,745,457
Alternative investments – fund of funds	86,029	933,856	447,984	4,183,642
Total	<u>\$ 86,029</u>	<u>933,856</u>	<u>3,820,702</u>	<u>22,298,559</u>

At June 30, 2011, there was one mutual fund and two international mutual funds which have been in a continuous unrealized loss position for less than 12 months. The market values of the funds were 97.98%, 96.22% and 99.15% of cost. The decline is considered temporary based on the criteria described in note 1(d). In addition, the Hospital has the ability and intent to hold the investments until the value has recovered.

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

At June 30, 2011, there was one alternative investment – fund of funds which has been in continuous unrealized loss positions for more than 12 months. At June 30, 2011, the market value of the fund was 91.56% of cost. The Hospital has made the decision to divest itself of this investment.

(7) Fair Value Measurements of Financial Assets and Liabilities

Certain financial assets held by the Hospital at June 30, 2011 are recorded at fair value in accordance with ASC Topic 820, *Fair Value Measurements*, as further described in note 1(d). ACS Topic 820 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs); and establishes a classification of fair value measurements for disclosure purposes. Various inputs are summarized in the three broad levels listed below:

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, credit risk, etc.)

Level 3 – significant unobservable inputs (including the Hospital's own assumptions in determining the fair value of investments)

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

The Hospital categorized the investments measured at fair value on a recurring basis at June 30, 2011 and 2010, as follows:

June 30, 2011				
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Unrestricted:				
Cash and cash equivalents	\$ 28,521,780	—	—	28,521,780
Board designated accounts:				
Cash and cash equivalents	1,700,740	—	—	1,700,740
Exchange traded funds	7,060,005	4,278,903	—	11,338,908
Mutual funds:				
Commodities mutual fund	7,152,521	—	—	7,152,521
Fixed income mutual funds	60,441,430	—	—	60,441,430
Global bond fund	4,017,750	—	—	4,017,750
International mutual funds	8,342,268	—	—	8,342,268
Large cap mutual funds	14,177,345	—	—	14,177,345
Real estate mutual funds	1,848,721	—	—	1,848,721
Small growth mutual fund	3,857,840	—	—	3,857,840
Alternative investments	—	14,380,607	—	14,380,607
Funds held by trustee:				
Cash and cash equivalents	6,264,942	—	—	6,264,942
Total	\$ 143,385,342	18,659,510	—	162,044,852

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

June 30, 2010				
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Unrestricted:				
Cash and cash equivalents	\$ 16,146,917	—	—	16,146,917
Board designated accounts:				
Cash and cash equivalents	1,118,130	—	—	1,118,130
Exchange traded funds	3,745,456	12,939,144	—	16,684,600
Mutual funds:				
Commodities mutual fund	5,310,186	—	—	5,310,186
Fixed income mutual funds	52,167,715	—	—	52,167,715
International mutual funds	5,435,398	—	—	5,435,398
Large cap mutual funds	5,406,585	—	—	5,406,585
Real estate mutual funds	3,179,582	—	—	3,179,582
Small growth mutual fund	2,985,840	—	—	2,985,840
Alternative investments	—	14,678,959	—	14,678,959
Funds held by trustee:				
Cash and cash equivalents	7,778,440	—	—	7,778,440
Total	<u>\$ 103,274,249</u>	<u>27,618,103</u>	<u>—</u>	<u>130,892,352</u>

As of June 30, 2011 the Hospital has alternative investments of \$14,400,000 which have redemption restrictions. Of these investments, \$3,200,000 can be redeemed quarterly, \$3,300,000 can be redeemed with 75 day written notice and the remaining \$7,900,000 may be redeemed on the anniversary dates of the original contribution, which are primarily, January 1 and October 1. As the restrictions lapse within six months of year-end, the Hospital does not believe that the redemptive restrictions have a significant impact on the fair value of the investments.

For financial assets and liabilities not measured at fair value on the balance sheet, the Hospital believes the carrying amount of its financial instruments (excluding long-term debt) approximates their fair values due to the relatively short maturity of these instruments. Long-term debt based on quoted market value of similar debt instruments, has an aggregate fair value of \$50,224,226 and \$51,768,000 at June 30, 2011 and 2010, respectively.

(8) Investment in Joint Ventures

In 1997, the Hospital invested \$937,500 to purchase a 50% ownership in a joint venture, which operates an ambulatory surgery center (Surgery Center of NorthCentral Indiana, LLC d/b/a River View Surgery Center (River View) in Marion, Indiana. Since 1997, River View bought shares resulting in the increase of the Hospital's ownership to 58.594% as of June 30, 2011. The Hospital accounts for the investment under the

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

equity method of accounting as it does not control key operating and governance factors in the organization. As a result, the Hospital recognized a gain of \$113,712 and \$177,294 related to its investment in River View for the years ended June 30, 2011 and 2010, respectively. The Hospital received dividend distributions during June 30, 2011 and 2010 of \$144,727 and \$336,746, respectively. The gain is included in investment income, net in the statements of operations.

The following is the unaudited condensed financial information of River View as of and for the years ended June 30, 2011 and 2010:

	2011	2010
Total assets	\$ 1,611,891	1,681,874
Total equity	1,405,392	1,458,321
Total net revenue	3,871,451	4,040,257
Net income	202,068	246,901

River View entered into a 15-year lease to rent a portion of a medical office building owned by the Hospital. Rent payments received by the Hospital in 2011 and 2010 from River View approximated \$434,000 and \$500,000, respectively, and are reported in other revenue.

In 2003, the Hospital invested \$3,000,000 to purchase 50% ownership in a joint venture to operate a cancer care center (Progressive Cancer Center, LLC) in Marion, Indiana. Since 2003, the number of outstanding shares in Progressive Cancer Center, LLC decreased thereby increasing the Hospital's ownership to 50.804% as of June 30, 2011. The Hospital accounts for the investment under the equity method of accounting, as the governance structure is such that the Hospital cannot exercise control. As a result, the Hospital recognized a gain of \$614,815 and \$484,229 related to its investment in Progressive Cancer Center, LLC for the years ended June 30, 2011 and 2010, respectively. The Hospital received dividend distributions during June 30, 2011 and 2010 of \$567,942 and \$516,540, respectively. The gain is included in investment income, net in the statements of operations.

The following is the unaudited condensed financial information of Progressive Cancer Care, LLC as of and for the years ended June 30, 2011 and 2010:

	2011	2010
Total assets	\$ 4,616,636	4,566,841
Total equity	4,371,248	4,278,986
Total net revenue	2,651,824	2,397,772
Net income	1,210,162	941,982

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

(9) Property and Equipment

Property and equipment and their estimated useful lives are as follows at June 30, 2011 and 2010:

	2011	2010	Range of estimated useful lives
Land	\$ 3,919,897	3,283,204	
Land improvements	1,764,402	1,683,188	10–20 years
Buildings	55,179,433	54,991,112	5–40 years
Medical office buildings	9,788,091	9,742,191	5–40 years
Building service equipment	28,776,694	28,578,879	5–25 years
Leasehold improvements	846,348	616,509	15–20 years
Fixed equipment	1,098,638	1,098,638	10–20 years
Leased equipment	142,740	142,740	4 years
Major movable equipment	59,788,460	57,930,127	2–20 years
Vehicles	887,314	814,183	4 years
	<u>162,192,017</u>	<u>158,880,771</u>	
Less accumulated depreciation	<u>(100,204,330)</u>	<u>(94,065,676)</u>	
Construction in progress	<u>2,794,657</u>	<u>2,008,960</u>	
	\$ <u><u>64,782,344</u></u>	<u><u>66,824,055</u></u>	

Construction in progress at June 30, 2011 primarily relates to Information Technology capital equipment projects, elevator upgrade and a building construction project. The estimated cost to complete these projects at June 30, 2011 is approximately \$11,900,000, of which approximately \$400,000 has been contractually committed.

The Hospital capitalizes interest cost as a component cost of significant construction and renovation projects. Interest cost capitalized was \$195,353 and \$349,944 in 2011 and 2010, respectively. Investment income earned on unexpended bond proceeds administered by a trustee for specific projects is offset against the amount of interest cost capitalized. There was no such investment income offset in 2011 or 2010.

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

(10) Long-Term Debt

Long-term debt consists of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Indiana Finance Authority:		
Variable rate demand revenue bonds, Series 2008A:		
Variable rate securities, payable through July 2035		
applicable Weekly Mode interest rate of 1.3% at		
June 30, 2011	\$ 22,090,000	22,955,000
Revenue bonds, Series 2002:		
Serial bonds, payable through July 1, 2013,		
interest from 4.0% to 4.5%	1,290,000	1,685,000
Term bonds with final redemption on July 1, 2019,		
interest at 5.625%	3,240,000	3,240,000
Term bonds with final redemption on July 1, 2023,		
interest at 5.25%	2,810,000	2,810,000
Term bonds with final redemption on July 1, 2027,		
interest at 5.25%	6,530,000	6,530,000
Term bonds with final redemption on July 1, 2032,		
interest at 5.25%	14,685,000	14,685,000
	<u>28,555,000</u>	<u>28,950,000</u>
Unamortized discount	(420,774)	(448,854)
	<u>28,134,226</u>	<u>28,501,146</u>
Less current installments	(1,305,000)	(1,260,000)
Total long-term debt	\$ <u>48,919,226</u>	<u>50,196,146</u>

On June 10, 2008, the Hospital issued \$24,000,000 of variable rate demand revenue bonds, Series 2008A, through the Indiana Finance Authority. The funds were used to refinance and retire the outstanding Series 2005 Bonds in the amount of \$6,750,000, and to finance routine capital expenditures at the Hospital facilities, including but not limited to remodeling of the radiology department in the Hospital, upgrading the current CT scanners, MRIs, ultrasounds, and other radiology equipment, upgrading and improvement of other equipment in the Hospital, and replacement of IV pumps throughout the Hospital. The bonds are dated and bear interest from June 10, 2008, with interest payable monthly. The Series 2008A bonds are secured by an irrevocable letter of credit for \$24,000,000, which expires July 1, 2013. Subsequent to fiscal-year end, the Hospital remarketed the Series 2008A bonds and signed a new letter of credit agreement. The new expiration date is September 9, 2016.

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

On May 1, 2002, the Hospital issued \$29,690,000 of revenue bonds, Series 2002, through the Indiana Health Facility Financing Authority, at a discount of \$686,204. The funds were used to finance the construction of a consolidated Intensive Care and Coronary Care Nursing Unit, an addition to the fourth and fifth floors, remodeling of certain units, including the emergency room, and to refinance and retire the Series 1997 bonds. All of the bonds are dated and bear interest from May 1, 2002, with interest payable semiannually on January 1 and July 1. The Series 2002 bonds are further secured through a commercial bond insurance policy.

The Hospital granted a security interest in its gross revenue (as defined) as collateral for the Series 2008A and 2002 bonds. In addition to various financial covenants, the Hospital covenants that it will not permit any lien or security interest on the Hospital's property and equipment other than certain permitted encumbrances.

The following is a schedule of maturities on long-term debt as of June 30, 2011 for the next five years:

2012	\$ 1,305,000
2013	1,350,000
2014	1,405,000
2015	1,455,000
2016	1,515,000

(11) Pension and Other Benefits

(a) *Defined Benefit Plan and Defined Benefit Health Plan*

The Hospital has a noncontributory defined benefit pension plan (Pension Plan) covering substantially all employees of the Hospital hired before July 1, 2005. The funding policy is to contribute annually at least the minimum contribution required to comply with ERISA regulations.

Effective December 31, 2010, the Hospital and the Board of Directors froze the Pension Plan.

Effective July 1, 2009, the Pension Plan was amended to comply with the Pension Protection Act of 2006 (PPA) and the Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART).

Effective December 31, 2009, the Pension Plan was amended to calculate frozen benefits accrued under all prior benefit formulas as of December 31, 2009 (based on monthly plan compensation and service prior to December 31, 2009) and to add a new benefit formula for service after December 31, 2009 equal to 0.5% of monthly plan compensation per year of service earned after December 31, 2009.

Effective December 31, 2010, the Pension Plan was amended to cease all further benefit accruals under the Plan for Participants with 5 or more years of Vesting Service as of December 31, 2006. (Accruals for Participants with less than 5 years of Vesting Service as of December 31, 2006 were frozen as of December 31, 2006.)

Prior to April 1, 2010, the Hospital also had a defined benefit health plan (the Health Plan) for early retirees, which provided for health benefits, subject to certain eligibility requirements, from the date

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

of early retirement (but not prior to age 55) to the date the retiree become Medicare eligible. This Health Plan also provided for certain coinsurance and deductibles to be paid by the retiree, same as all participants. Effective April 1, 2010, this defined benefit health plan was terminated. This reduced the postretirement liability and the items not yet recognized as a component of postretirement cost to \$0. As a result, employee benefit expense was reduced by approximately \$3,200,000 for the year ended June 30, 2010.

The following tables set forth the plans (Pension Plan and Health Plan) change in benefit obligation, change in plan assets, and weighted average assumptions as of June 30, 2011 and 2010 (Measurement Dates):

	Pension Plan benefits		Health Plan benefits	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 77,234,508	66,202,693	—	5,610,828
Service cost	536,237	1,009,814	—	—
Interest cost	3,981,332	4,036,480	—	—
Amendments	—	(574,982)	—	—
Actuarial (gain) loss	(1,113,100)	9,686,524	—	—
Curtailment	(299,765)	—	—	—
Benefits paid	(3,289,544)	(3,126,021)	—	—
Termination of plan	—	—	—	(5,610,828)
Benefit obligation at end of year	<u>77,049,668</u>	<u>77,234,508</u>	<u>—</u>	<u>—</u>
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	59,953,068	54,438,998	—	—
Actual return on plan assets	12,315,263	8,640,091	—	—
Employer contribution	2,000,000	—	—	—
Benefits paid	(3,289,544)	(3,126,021)	—	—
Fair value of plan assets at end of year	<u>70,978,787</u>	<u>59,953,068</u>	<u>—</u>	<u>—</u>
Funded status	\$ <u>(6,070,881)</u>	<u>(17,281,440)</u>	<u>—</u>	<u>—</u>

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

	Pension Plan benefits		Health Plan benefits	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Amounts recognized in the balance sheets consist of:				
Accrued pension liability	\$ 6,070,881	17,281,440	—	—
Items not yet recognized as a component of periodic pension and postretirement cost – accumulated charge to unrestricted net assets	21,705,620	30,142,993	—	—

The net loss and prior service cost for the pension benefits that the Hospital expects to amortize from unrestricted net assets into net periodic benefit cost over the next calendar year are \$3,029,948 and \$1,666,348, respectively.

	Pension Plan benefits		Health Plan benefits	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Weighted average assumptions used to determine benefit obligations:				
Discount rate	5.36%	5.27%	—%	—%
Weighted average assumptions used to determine net periodic benefit cost:				
Discount rate	5.27%	6.25%	—%	—%
Expected return on plan assets	6.10	8.25	—	—

The Hospital recognizes the cost related to employee service using the projected unit credit actuarial cost method and funds at least the minimum as calculated under the ERISA.

The discount rate was selected by applying the benefit payout stream to the Citigroup Pension Discount curve spot rates.

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

The Hospital's overall expected long-term rate of return on assets is 6.10% for fiscal year 2012. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

The following table sets forth the components of net periodic benefit cost for the years ended June 30, 2011 and 2010 for the Pension Plan and the Health Plan:

	Pension Plan benefits		Health Plan benefits	
	2011	2010	2011	2010
Components of net periodic benefit cost:				
Service cost	\$ 536,237	1,009,814	—	—
Interest cost	3,981,332	4,036,480	—	—
Expected return on plan assets	(4,806,917)	(4,357,649)	—	—
Amortization of prior service cost	(654,939)	(587,760)	—	—
Amortization of loss	3,029,948	2,758,183	—	—
Net periodic benefit cost	\$ 2,085,661	2,859,068	—	—

The Pension Plan asset target allocation for 2012, as well as the allocation at June 30, 2011 and 2010, by asset category is as follows:

Asset category	Target allocation 2012	Percentage of plan assets at	
		June 30, 2011	June 30, 2010
Equity securities	—	—%	43%
Debt securities and cash equivalents	100	100	45
Alternative investments	—	—	12
Total		100%	100%

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

The following is a breakdown of assets held by the plan:

June 30, 2011				
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Cash and cash equivalents	\$ 1,301,630	—	—	1,301,630
Fixed income mutual funds	69,596,253	—	—	69,596,253
Total	<u>\$ 70,897,883</u>	<u>—</u>	<u>—</u>	<u>70,897,883</u>

June 30, 2010				
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Cash and cash equivalents	\$ 895,332	—	—	895,332
Mutual funds:				
Fixed income funds	23,411,141	—	—	23,411,141
Blended funds	10,805,799	—	—	10,805,799
Commodities funds	3,079,428	—	—	3,079,428
Emerging market funds	4,777,049	—	—	4,777,049
Value funds	3,732,890	—	—	3,732,890
Real estate funds	2,053,547	—	—	2,053,547
Growth funds	5,138,897	—	—	5,138,897
Allocation funds	1,159,853	—	—	1,159,853
International funds	1,089,131	—	—	1,089,131
Common stocks	2,010,720	—	—	2,010,720
Alternative investment	—	1,770,715	—	1,770,715
Total	<u>\$ 58,153,787</u>	<u>1,770,715</u>	<u>—</u>	<u>59,924,502</u>

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

The investment policy covering pension assets is approved by the Finance Committee of the Board of Directors for the Hospital. This committee meets on a bimonthly basis and makes periodic changes to the policy. The approved investment structure reflects a movement to a “liability driven” investment strategy due to the freeze of the Pension Plan. Investment managers are reviewed on an ongoing basis.

The Hospital is not planning to contribute to the Pension Plan in fiscal year 2012.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the Pension Plan:

	Pension Plan benefits
2012	\$ 3,690,892
2013	3,824,492
2014	3,961,623
2015	4,172,259
2016	4,362,794
2017 through 2021	24,186,013

(b) Defined Contribution Plan

The Hospital established a 403(b) Employer Contributory Plan (the Plan) on January 1, 2007, which permits employees of the Hospital to contribute to the Plan, on a pretax basis, up to the applicable limitations under Section 402(g)(1) of the Code. The contributions made by each employee are fully vested immediately and are not subject to forfeiture.

As defined by the Plan, through December 31, 2010, the Hospital made matching contributions of 50% of the employee’s contribution up to 6% of qualifying wages for benefit eligible employees not vested in the Pension Plan, and matching contributions of 50% of the employee’s contribution up to 2% of qualifying wages for benefit eligible employees vested in the Pension Plan. Effective January 1, 2011, matching contributions of 50% of the employee’s contribution up to 6% of qualifying wages for all benefit eligible employees were made, regardless of vesting status in the Pension Plan.

Contributions made by the Hospital for years ended June 30, 2011 and 2010 amounted to \$588,767 and \$413,455, respectively.

(12) Medical Office Buildings – Operating Leases

The Hospital owns medical office buildings in Swayzee, Indiana and in Marion, Indiana, and leases the buildings to physicians, physician groups, and others under various operating leases. Lease rental income of \$1,037,260 and \$1,127,329 is included in other revenue for the years ended June 30, 2011 and 2010, respectively.

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

The Hospital is scheduled to receive future minimum rental payments under these lease agreements for the next five years as follows:

2012	\$	748,846
2013		293,502
2014		100,030
2015		38,475
2016		—

(13) Lease Obligations

The Hospital leases various equipment and space under noncancelable operating leases expiring in various years through 2025. Total rental expense amounted to approximately \$851,000 and \$635,000 for 2011 and 2010, respectively. Future minimum payments under the operating leases with initial terms in excess of one year as of June 30, 2011 are as follows:

2012	\$	863,558
2013		848,840
2014		731,075
2015		694,797
2016		502,584
Thereafter		3,405,608

(14) Malpractice Insurance

The Hospital participates in the Indiana Medical Malpractice Act (the Act), which limits the maximum recovery for medical malpractice claims to \$1,250,000 per occurrence, of which, the first \$250,000 is the responsibility of the Hospital, with the balance paid by the State of Indiana Patient Compensation Fund.

Effective July 1, 2005, the Hospital became a member of a Vermont insurance company, Indiana Healthcare Reciprocal Risk Retention Group (IHRRRG) formerly known as VHA Central (a Reciprocal Risk Retention Group), as a means to comply with the Hospital's required portion of the insurance coverage pursuant to the Act, as well as its liability insurance. Membership in IHRRRG includes nine Indiana hospitals as of June 30, 2011. The Hospital's investment in IHRRRG of \$574,732 and \$345,934 is included in other assets as of June 30, 2011 and 2010, respectively.

The Hospital has estimated the reserve for loss contingencies using actuarial valuations in determining the estimated reserve for loss contingencies, including the incurred but not reported claims. In management's opinion, a reserve for loss contingencies of approximately \$300,000 as of June 30, 2011 and 2010 is a reasonable estimate to cover malpractice exposures.

(15) Related-Party Transactions

The Hospital has entered into various agreements in the normal course of business with companies for which certain officers of these companies are also members of the Hospital's Board of Directors.

MARION GENERAL HOSPITAL, INC.

Notes to Financial Statements

June 30, 2011 and 2010

(16) Commitments and Contingencies

(a) *Regulatory Investigations*

The U.S. Department of Justice, the Internal Revenue Service, and other federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. The Hospital is subject to these regulatory efforts. Management is currently unaware of any regulatory matters that may have a material adverse effect on the Hospital's financial position or results of operations.

(b) *Legal Matters*

The Hospital is involved in various legal actions in the normal course of its operations. Management believes that any liability resulting from these matters will not have a material impact on the financial position or results of operations of the Hospital.

(c) *Guarantees*

The Hospital provides gross receipts guarantee agreements to certain physicians who agree to relocate to the Hospital's community to fill a need in the Hospital's service area and commit to remain in practice there. Under such agreements, the Hospital is required to make payments to the physicians in excess of the amounts they collect in their practice up to the amount of gross receipts guarantee. The gross receipts guarantee period is typically 12-24 months. Such payments are recoverable from the physicians if they do not fulfill their commitment period to the community, which is typically two to three years. At June 30, 2011, the maximum potential amount of future payments under these guarantees was zero. In accordance with ASC Topic 954-460, *Health Care Entities – Guarantees*, the Hospital analyzed its potential liability as the fair value of the obligation in issuing the guarantees.

(17) Subsequent Events

The Hospital has evaluated subsequent events from the balance sheet date through October 14, 2011, the date at which the financial statements were available to be issued and determined there are no other items to disclose.